

Message Text

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12

ACTION EB-07

INFO OCT-01 AF-08 EUR-12 IO-13 ISO-00 SP-02 USIA-15 AID-05

NSC-05 CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 AS-01 /115 W
----- 099502

R 121600Z MAY 76

FM AMEMBASSY BERN

TO SECSTATE WASHDC 2573

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION GENEVA

USMISSION OECD PARIS

USDEL MTN GENEVA

AMCONSUL ZURICH

UNCLAS SECTION 1 OF 2 BERN 2099

PASS TREASURY AND FRB

EO 11652: NA

TAGS: EFIN ECON SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC REPORT: WEEK OF MAY 3-8, 1976

1. SUMMARY: THE FRANC APPRECIATED SHARPLY AGAINST THE DOLLAR, DM, AND OTHER CURRENCIES THIS WEEK. SOME OBSERVERS FELT THIS TREND WOULD BE REVERSED AND RUMORS CIRCULATED THAT THE SWISS NATIONAL BANK (SNB) MAY INTERVENE LESS IN THE FUTURE TO CONTROL THE RATE. SNB PRESIDENT LEUTWILER IN A RECENT SPEECH NOTED WITH CONCERN THAT THE ECONOMIC RECOVERY HAS SO FAR SEEN LITTLE PRIVATE INVESTMENT. HE WARNED THAT RELIANCE ON PUBLIC SPENDING TO END THE RECESSION COULD HAVE

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SERIOUS ECONOMIC AND SOCIAL CONSEQUENCES FOR MARKET

ECONOMIES. THE SWISS WHOLESALE PRICE INDEX INCREASED BY 0.3 PERCENT DURING APR WHILE THE CONSUMER PRICE INDEX REMAINED UNCHANGED. THE PERCENTAGE OF THE SWISS POPULATION GAINFULLY EMPLOYED HAS DECLINED DURING THE PAST 12 YEARS TO 43.9 PERCENT.

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD. THE MARKET WAS HECTIC AND NERVOUS THIS WEEK. A LOWER US PRIME RATE AND SOME REPORTS OF A LESS FAVORABLE US ECONOMIC OUTLOOK WERE SAID TO HAVE CAUSED CONSIDERABLE PRESSURE TO BE PLACED ON THE DOLLAR. SOME OBSERVERS SUGGESTED THAT THE NEW SWISS MEASURING LIMITING FOREIGN BANK NOTE IMPORTS ARE BEING CIRCUMVENTED BY THE SALE OF SWISS FRANCS ABROAD BY FOREIGN BANKS, RESULTING IN A GREATER DEMAND FOR FRANCS BY THOSE BANKS. OTHERS BELIEVE THAT THE FRANC RATE WOULD DECLINE LATER IN MAY. THE SNB INTERVENED SEVERAL TIMES ON MONDAY TO KEEP THE DOLLAR RATE AT SF 2.50. IT WAS RUMORED THAT THE SNB BOUGHT \$150-200 MILLION. HOWEVER, THE RATE FELL TO 2.47 BY FRIDAY. OTHER CURRENCIES ALSO WEAKENED, NOTABLY THE DM, POSSIBLY IN RESPONSE TO RUMORS THAT THE SNB HAD GIVEN UP DEFENDING THE DM AT PAR. STATEMENTS BY SNB PRESIDENT LEUTWILER CALLING ON THE SWISS TO LIVE WITH A STRONG FRANC HAVE BEEN SEEN BY SOME BANKERS AS AN INDICATION OF THE SNB'S INTENTION TO INTERVENE LESS FREQUENTLY IN THE MARKET. THE GOLD MARKET WAS RELATIVELY QUIET AND PRICES DECLINED SLIGHTLY. RATES AS FOLLOWS:

	5/2 (OPEN)	5/7 (CLOSE)
SPOT DOLLAR	2.5110	2.4760
FORWARD DISCOUNTS (PCT. P.A.)		
ONE MONTH	- 4.74	- 4.7
2 MONTHS	- 4.43	- 4.36
3. MONTHS	- 4.33	4.34
6 MONTHS	- 4.30	- 4.24
12 MONTHS	- 4.06	- 4.03
SF/DM	SF 99.94	SF 97.65
GOLD	\$128	\$127.75

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3. MONEY AND CAPITAL MARKETS: THE MARKETS WERE LESS ACTIVE. THE CALL MONEY RATE REMAINED AT .25 PERCENT. STOCK PRICES FELL FURTHER AND THE SKA INDEX WAS DOWN FURTHER FROM 204.8 IN APRIL 30 TO 203.2 ON MAY 5. THE MEDIAN YIELD ON CONFEDERATION BONDS AT THE END OF THE WEEK WAS 5.21, UP FROM 5.19 THE END OF APRIL.

4. SNB STATEMENT OF ACCOUNT FOR APRIL: THE MAJOR

MONTHLY CHANGES IN THE SNB'S STATEMENT OF ACCOUNT
 ARE SHOWN BELOW. FOREIGN EXCHANGE HOLDINGS INCREASED
 BY SF 416.3 MILLION DURING THE LAST WEEK OF APRIL,
 AS THE SNB PROVIDED ASSISTANCE TO COMMERCIAL BANKS.
 GIRO ACCOUNTS (COMMERCIAL BANKS CLEARING ACCOUNTS
 WITH SNB) DECREASED 31 PERCENT, AND HOLDINGS OF DISCOUNTED
 PAPER DECLINED BY 56 PERCENT INDICATING CONSIDERABLE
 LIQUIDITY IN THE BANKING SYSTEM.

APRIL 30 CHANGE FROM MAR 31
 (MILLIONS OF SWISS FRANCS)

ASSETS

GOLD	11,893	-	
FOREIGN EXCHANGE	12,290	DOWN	1,229
ROOSA BONDS	5,403	-	
DISCOUNTED PAPER	268	DOWN	342
LOMBARD LOANS	458	DOWN	72
OTHER	1,000	DOWN	15

LIABILITIES

NOTES IN CIRCULATION	17,756	DOWN	25
GIRO ACCOUNTS	6,972	DOWN	3,101
RESERVES (FOREIGN LIBL)	236	UP	31
OTHER	6,348	UP	1,337
BALANCE SHEET TOTALS	31,312	DOWN	1,758

ECONOMIC

5. SNB'S VIEW OF THE ECONOMIC OUTLOOK: SPEAKING BEFORE THE

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LAB-04 SIL-01 AS-01 /115 W

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R 121600Z MAY 76
FM AMEMBASSY BERN
TO SECSTATE WASHDC 2574
INFO AMEMBASSY BONN
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PASS TREASURY AND FRB

SNB SHAREHOLDERS MEETING APR 29, SNB PRESIDENT LEUTWILER EXPRESSED HIS CONCERN THAT INSUFFICIENT PRIVATE INVESTMENT INVOLVEMENT IN THE ECONOMIC RECOVERY COULD LEAD TO UNWANTED ECONOMIC AND SOCIAL CHANGES. LEUTWILER NOTED THAT VARIOUS FACTORS (ESPECIALLY HIGHER WAGES) HAVE CONTRIBUTED TO INCREASED PRODUCTION COSTS IN EUROPE, RESULTING IN REDUCED PROFITABILITY AND ACTUALLY THREATENING THE VIABILITY OF SOME FIRMS. HE POINTED OUT THAT THE ECONOMIC RECOVERY UP TO NOW HAS BEEN BASED ALMOST ENTIRELY ON REPLENISHMENT OF INVENTORIES AND INCREASED PUBLIC EXPENDITURES WITH RELATIVELY LITTLE NEW PRIVATE INVESTMENT. LEUTWILER CAUTIONED THAT IF GOVT
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CONTINUES TO TAKE EVEN LARGER PORTIONS OF THE NATIONAL PRODUCT THIS COULD SERIOUSLY HINDER THE RECOVERY OF THE MARKET ECONOMIES AND BRING ABOUT FAR REACHING CHANGES.

6. THE SWISS PTT EXPERIENCED A NET OPERATING DEFICIT OF 53 MILLION SFS IN 1975 AS REVENUES FELL BEHIND THE DEMAND FOR SERVICES. WHILE POSTAL AND INTERURBAN TELEPHONE SERVICE DECLINED, INTERNATIONAL TELEPHONE AND TELEX USE SHOWED A MARKED INCREASE. THE PTT NOW HAS A TOTAL DEFICIT (INCLUDING THOSE FROM PAST YEARS) OF SF 430 MILLION. THE CONFEDERATION HAS DECIDED TO TRANSFORM THIS SHORT TERM DEBT INTO A LONG-TERM LOAN WITH INTEREST.

7. WHOLESALE AND RETAIL PRICES: THE SWISS WHOLESALE PRICE INDEX FOR RAW MATERIALS, SEMI-FINISHED PRODUCTS AND CONSUMER GOODS WAS 147.6 AT THE END OF APR (1963 EQUALS 100), AN INCREASE OF 0.3 PERCENT FROM THE END OF MARCH.

HOWEVER, THIS WAS A DECREASE OF 1.1 PERCENT FROM APRIL 1975. THE INCREASE IN PRICES LAST MONTH IS GENERALLY ATTRIBUTED TO THE RISING PRICES OF IMPORTS, CHIEFLY THOSE RELATED TO ENERGY PRODUCTION, AGRICULTURE AND METAL PRODUCTS. HOWEVER, THE CONSUMER PRICE INDEX SHOWED NO CHANGE DURING APRIL CONTINUING AT 165.5 AS AT THE END OF MARCH, BUT 2.2 PERCENT HIGHER THAN AT THE END OF APRIL 1975. WHILE PRICES OF RETAIL FOOD PRODUCTS AS A GROUP SHOWED A SLIGHT DECREASE, THIS WAS OFFSET BY HEATING, TRANSPORTATION AND HEALTH COSTS.

8. EMPLOYMENT: THE PERCENTAGE OF THE SWISS POPULATION GAINFULLY EMPLOYED HAS DROPPED FROM 49.3 PERCENT IN 1963 TO 46.1 PERCENT IN 1973 AND 43.9 PERCENT IN 1975, ACCORDING TO A REPORT BY THE SOCIETY FOR THE DEVELOPMENT OF THE SWISS ECONOMY.

9. NESTLE/SNB ACCORD: NESTLE HAS AGREED TO PROVIDE THE SNB WITH INFORMATION ON LARGE CAPITAL TRANSACTIONS TO HELP THE SNB CONTROL FOREIGN EXCHANGE MOVEMENTS. THIS IS THE FIRST SUCH ACCORD BETWEEN THE SNB AND THE MULTINATIONALS TO BE PUBLICIZED. NESTLE OFFICIALS STRESSED THAT THE AGREEMENT DOES NOT PERMIT SNB UNCLASSIFIED

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CONTROL OVER CORPORATE DECISIONS.
DAVIS

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